

Message Text

UNCLASSIFIED

PAGE 01 STATE 180433
ORIGIN EUR-12

INFO OCT-01 ISO-00 PRS-01 PA-02 USIA-15 EB-08 TRSE-00
OMB-01 FRB-01 XMB-04 CIAE-00 INR-07 NSAE-00
COME-00 /052 R

DRAFTED BY EUR/SE:RCEWING:LB
APPROVED BY EUR/SE:RCEWING
-----038744 020529Z /10

R 020112Z AUG 77
FM SECSTATE WASHDC
TO AMEMBASSY ANKARA
INFO AMCONSUL IZMIR
AMCONSUL ISTANBUL
AMEMBASSY ATHENS
AMEMBASSY NICOSIA

UNCLAS STATE 180433

E.O. 11652: NA

TAGS: EFIN, TU

SUBJECT: TURKISH FINANCIAL SITUATION

FOLLOWING FOR YOUR INFORMATION IS ARTICLE BY JOE ALEX MORRIS JR. OF LA TIMES DATED ANKARA ENTITLED "TURKEY'S LOAN SOURCES DRYING UP---LONG POLITICAL TURMOIL CAUSES FOREIGN BANKS TO CUT OFF FUNDS" WHICH APPEARED IN WASHINGTON POST JULY 30 ON BACK PAGE OF CLASSIFIED SECTION:

1. BEGIN TEXT. SMALL FOREIGN BANKS ARE BEGINNING TO CUT OFF THE FLOW OF FUNDS TO TURKEY FOLLOWING A NATIONAL ELECTION THAT HAS PROVIDED NO POLITICAL SOLUTION TO THE NATION'S WORSENING ECONOMIC CRISIS.

2. TURKEY'S CENTRAL BANK REPORTED A REVERSAL OF THE MONEY
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 STATE 180433

FLOW IN JUNE, CAUSING A DOLS 60 MILLION DEFICIT IN THE NATION'S CONVERTIBLE ACCOUNT, WHICH CONTAINS FUNDS THAT CAN BE EXCHANGED FOR FOREIGN CURRENCIES TO PAY FOR PURCHASES ABROAD.

3. IN THE PREVIOUS FIVE MONTHS, THE CONVERTIBLE ACCOUNT HAD INCREASED BY DOLS 400 MILLION DESPITE TURKEY'S PROBLEMS WITH

ITS BALANCE OF PAYMENTS.

4. BANKERS HERE SAID THE TURNAROUND WAS DUE TO NERVOUSNESS ON THE PART OF SMALL FOREIGN BANKERS, WHO ACCOUNT FOR ONE-THIRD OF THE DOLS 2.1 BILLION IN THE CONVERTIBLE TURKISH LIRA FUND. THE BIG AMERICAN BANKS, WHICH HOLD ABOUT DOLS 1.5 BILLION OF THE TOTAL, ARE NOT PULLING OUT, SOURCES HERE SAID.

5. SOARING OIL PRICES AND A POLICY OF FORCED INDUSTRIALIZATION HAVE WREAKED HAVOC WITH THE TURKISH BALANCE OF PAYMENTS. THE COUNTRY HAS LITERALLY RUN OUT OF FOREIGN EXCHANGE AND HAS NOW RUN OUT OF EMERGENCY MEASURES TO MAKE UP THE BALANCE OF PAYMENTS DEFICIT, WHICH WILL TOTAL DOLS 3 BILLION OR MORE THIS YEAR.

6. U.S. BANKERS REFUSED TO GRANT A STANDBY CREDIT WHEN THE TURKS APPROACHED THEM THIS SPRING AND EUROPEAN BANKERS SUGGESTED THAT ANKARA TRY TO EXTEND SOME OF ITS SHORT-TERM OBLIGATIONS. THIS HAS BEEN TRIED BUT WITH ONLY MODEST SUCCESS.

7. EVERYONE IS WAITING FOR THE INTERNATIONAL MONETARY FUND TO STEP IN AND FORCE TURKEY TO PUT ITS FISCAL HOUSE IN ORDER.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 STATE 180433

8. SULEIMAN DEMIREL, THE NEW PRIME MINISTER, IS TRYING TO WORK OUT AN ECONOMIC PROGRAM, BUT HE IS CAUGHT BETWEEN THE IMF AND NECMETTIN ERBAKAN, HEAD OF THE ISLAMIC NATIONAL SALVATION PARTY AND A KEY ELEMENT IN DEMIREL'S COALITION GOVERNMENT. IT WAS ERBAKAN WHO FORCED THROUGH THE INDUSTRIALIZATION POLICIES THAT HELPED TO BRING DOWN THE LAST GOVERNMENT. NOW THEY ARE PARTNERS AGAIN IN A NEW RIGHT-WING COALITION.

9. TURKEY'S TOTAL DEBT, ACCORDING TO THE CENTRAL BANK, IS NOW DOLS 8.1 BILLION, INCLUDING DOLS 3.2 BILLION IN SHORT-TERM LOANS. IN ADDITION TO THIS, DEMANDS FROM PRIVATE INDUSTRY FOR FOREIGN EXCHANGE NOW AMOUNT TO DOLS 1.5 BILLION, WITH ANOTHER DOLS 500 MILLION NEEDED BY STATE INDUSTRIES.

10. THIS IS MONEY FOR IMPORTED RAW MATERIALS TO KEEP PLANTS GOING. THERE HAS BEEN A TOTAL FREEZE ON FOREIGN EXCHANGE TRANSFERS SINCE MARCH 1, EXCEPT FOR MILITARY EQUIPMENT, DEBT REPAYMENTS AND A FEW VITAL NECESSITIES.

11. INDUSTRY IS WORKING FROM EXISTING STOCKPILES, AND

ALREADY SOME OPERATIONS HAVE REPORTED SLOWDOWNS. WITHIN THE NEXT FEW MONTHS,MUCH OF TURKEY'S INDUSTRY IS EXPECTED TO RUN OUT OF RAW MATERIALS IF THERE IS NO CHANGE IN THE SITUATION.

12. THE SITUATION RESEMBLES THE CRISIS OF 1958, WHEN TURKEY BECAME INSOLVENT AND WAS FORCED TO DECLARE A MORATORIUM ON PAYMENTS TO ITS CREDITORS. THAT TIME, THE IMF FORCED ANKARA INTO A DRASTIC DEVALUATION, AND THE TURKISH LIRA WENT FROM 2.8 TO 9 TO THE DOLLAR. IT IS NOW 17 TO THE DOLLAR.

13. AMONG TURKEY'S MAJOR CREDITORS ARE NEW YORK'S CITICORP
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 STATE 180433

AND A CONSORTIUM LED BY WELLS FARGO OF SAN FRANCISCO WHICH HAS BEEN FINANCING SOME OF TURKEY'S IMPORTS COSTS ON A ROLLOVER BASIS-PROVIDING NEW CREDIT ONLY AS PREVIOUS CREDIT IS REPAYED. OTHER AMERICAN BANKS INVOLVED HERE INCLUDED CHASE, IRVING TRUST AND MORGAN GUARANTY.

14. "THE BIG DANGER IS THAT THE BANKS WILL GET SCARED AND PULL OUT," A FOREIGN ECONOMIST HERE SAID.

15. IF THE TURKS WERE FORCED TO DECLARE INSOLVENCY, IT WOULD GIVE THE BIG AMERICAN BANKS "A SEVERE CASE OF INDIGESTION," THE ECONOMIST SAID.

16. THE POLITICAL SITUATION MAKES ANY SOLUTION OF THE CRISIS UNLIKELY.

17. "ANY GOVERNMENT WITH ERBAKAN WILL HAVE AN EXTREMELY DIFFICULT TIME SOLVING THE FOREIGN CREDITS PROBLEM," SAID BESIM USTUNEL, MINISTER OF FINANCE IN THE INTERIM GOVERNMENT. "IT LOOKS IMPOSSIBLE."

18. TURKEY'S PROBLEMS GO DEEPER THAN PARTY POLITICS, HOWEVER. WITH A HIGH BIRTH RATE AND 14 PER CENT UNEMPLOYMENT, ALL THE POLITICAL PARTIES ARE COMMITTED TO RAPID INDUSTRIALIZATION AND A HIGH GROWTH RATE, ABOUT 7 PER CENT A YEAR. THAT MEANS MORE AND MORE IMPORTED MATERIALS WILL BE NEEDED
END TEXT. CHRISTOPHER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, ECONOMIC CONDITIONS, BANKS, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 02-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE180433
Document Source: CORE
Document Unique ID: 00
Drafter: RCEWING:LB
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770275-1278
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197708105/aaaadltm.tel
Line Count: 163
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 71d69e4f-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1417152
Secure: OPEN
Status: NATIVE
Subject: TURKISH FINANCIAL SITUATION FOLLOWING FOR YOUR INFORMATION IS ARTICLE BY JOE ALEX MORRIS JR. OF LA TIMES DATED LINE ANKARA ENTITLED \"
TAGS: EFIN, TU, LOS ANGELES TIMES, (MORRIS, JOE ALEX JR)
To: ANKARA
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/71d69e4f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009